(late 75, early 76?)

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STRATEGIES FOR THE MULTILATERAL PRODUCER/CONSUMER DIALOGUE

The oil embargo that began in the fall of 1973 and the subsequent fivefold increase in the price of oil had a serious impact on inflation and recession in the industrial economies. Its most devastating effects, however, were felt by the developing countries.

The oil producing nations used their new-found oil power as a political weapon; to influence United States policies in the Middle East, to drive a wedge between us and our more vulnerable European and Japanese allies, and to rally Third World support by attempting to use the threat of oil power to achieve gains for the oil-consuming less developed countries.

The United States response has four main interrelated elements:

-- a strengthened domestic energy program to end our energy vulnerability;

-- cooperation with other industrialized oil-consuming countries to reduce short-term vulnerability, to reduce import dependence through long-term programs of conservation and development of new energy supplies, and to minimize strains on any overall political, economic, and security relationships caused by the energy crisis.

-- intensifying mutually advantageous economic and political links with the oil producing nations; and

-- a broad program of economic cooperation with the less developed world.

The first part of this response is represented by Project Interdependence and its follow-up; the second by the Washington Energy Conference and the formation of and implementation of the programs of the International Energy Agency; the third by the intensified bilateral links with key oil producers; and the fourth by a series of speeches by the Secretary, beginning May 13 in Kansas City and culminating with the September 1 speech at the Seventh Special Session of the United Nations General Assembly.

With the initiation of a multilateral dialogue on energy, raw materials, development, and related financial issues, we have reached a new stage in the evaluation of our world strategy. Our basic objectives in the dialogue are:

-- to develop, in an institutional process over which we can exercise substantial control, the US approach to North/South issues as set forth in the Secretary's UN speech;

-- to facilitate integration of the newly important OPEC economies into the world trading and financial systems and encourage the development of a more responsible set of attitudes on the part of the oil producers;

-- to keep the Europeans and Japanese locked into a coordinated approach to OPEC which supports our political and energy objectives in the IEA; and

-- to weaken the OPEC/LDC alliance by demonstrating to the LDCs that their interests are not exclusively tied to those of OPEC, thus intensifying potential LDC pressure on OPEC pricing decisions.

The Role of Energy in the Dialogue

The scope of the dialogue has now become substantially broader than the energy and energy-related focus with which it was originally conceived. Nevertheless, the energy issues of price and supply are central to our overall strategy for the dialogue. How we treat them will largely define the limits within which we deal with the non-energy issues and will provide the answers to the important linkage questions, i.e. whether the work in one commission can and/or should be leveraged against that in another.

We cannot view the dialogue as a means to achieve our fundamental objective of invulnerability to the threat of oil supply disruption and arbitrary OPEC price increases. This can only be accomplished by unified and sustained consumer country action to restrain energy consumption and develop new supplies, thereby forcing a fundamental shift in the supply/demand balance and ending OPEC's domination of the market. Our ability to gain increased market leverage over the next few years is limited; but our position should begin to improve significantly by 1980.

Therefore, our energy strategy for the dialogue must be based on a realistic assessment of the costs and benefits of trying to reach agreement with the producers on price and supply during the short-to-middle term. Our tactics, on the other hand, must take account of the expectations of the public and the other participants, particularly the non-oil LDCs, for the dialogue.

Prices

We have two basic options on the price issue:

Option A - to seek some type of agreement to constrain the producers' control over prices.

Pros:
- -- Without agreement, OPEC may be able to raise prices at will at least for the next five years;
- -- An agreement might place some limit on OPEC price increases. (For instance, an international agreement might strengthen the resolve of Saudi Arabia to stand firm against other OPEC members if they wanted to exceed the agreed price terms.)

Cons: -- An agreement would neutralize price constraints on OPEC caused by market forces and growing LDC demands for price relief. (If OPEC decides to implement a two-tier pricing plan or a deferred payment scheme to benefit the LDCs, it will largely eliminate LDC price pressures.)

-- Since our bargaining power is weak, the only agreement we could reach would be viewed as a sell-out to the cartel. (Later--after 1978--we may have achieved a better supply/demand balance, in which case we could use our increased bargaining leverage to prevent a one-sided agreement favoring the producers.)

-- We would legitimize the existence of the cartel and forego the possibility of lower real prices for oil at least during the term of the agreement.

-- Effective consumer retaliation through trade measures would require a degree of consumer solidarity not likely to be achieved soon because the economies of most European nations and Japan cannot survive without OPEC oil.

Should we adopt this option, there are four types of price arrangements that might be negotiable:

1) a consultative mechanism by which the producers would consult in advance with the consuming countries before deciding on any price increase.

Pros: -- would establish principle that pricing decisions on a vital commodity should not be made unilaterally by producers.

Cons: -- in the absence of real market leverage by consumers, would probably not moderate OPEC decisions significantly.

-- would tend to legitimize OPEC pricing decisions.

2) commodity type agreement with agreed ceiling protected by producers and floor protected by consumers. Ceiling and floor would be determined by periodic review and there could be agreed provisions for economic reprisal should one side or the other break the agreement.

Pros: -- would give consumers some voice in settling upper level of prices.

-- might encourage producers to let prices fall slightly to show cooperative attitude.

-- if reprisal provisions could be established, we would have "claim" on Europeans and Japanese for joint action against OPEC.

Cons: -- producers would not likely agree to a ceiling lower than they thought they could push prices, thus agreement has no benefit to consumers.

-- would tend to legitimize OPEC price decisions.

-- would be hard to sell to Congress and the public, particularly since "periodic review" of ceiling and floor would be regarded as type of indexing.

-- even if OPEC and other consumers would agree to reprisal provisions, these are likely to be meaningless since OPEC would still have ultimate threat of embargo.

3) <u>indexation of oil prices in return for meaningful</u> price cut.

Pros: -- would bring oil prices down immediately and ensure that they rose in the future at predictable rate.

Cons: -- not likely to get OPEC support. Producers want to index at or close to current price levels as many cannot afford any reduction in current revenues.

-- might encourage other raw materials producers to insist on indexation of their products.

(Since the producers would not likely cave to this pressure, we would have to carefully orchestrate use of "reverse linkage" to avoid appearing openly confrontational and thereby increasing OPEC/LDC cohesion.)

--The pressures of market forces and LDC complaints would not be impeded.

Cons:--Would be hard to defend domestically since oil prices are at the crux of energy crisis and the public expects the dialogue to deal with this issue.

--Might be difficult to hold other IEA countries in line on this strategy.

--Could lead to accusation that we have no interest in the dialogue.

Security of Supply

Either in conjunction with, or separate from, the price discussions, we could seek to negotiate a supply agreement in the Energy Commission. Such agreements would be of two basic types:

4) <u>indexation of oil prices at current levels</u>

Pros: -- would be acceptable to producers

-- would provide some degree of "stability", i.e., predictability, on world oil prices.

Cons: -- agreement would neutralize market and LDC pressures on OPEC which might hold price increases to level lower than or only marginally higher than that resulting from indexation.

-- would be regarded as sell-out to cartel, ensuring strong domestic opposition.

-- would encourage other raw materials producers to press for indexation of their products.

<u>Option B</u> - not try to use the dialogue to get relief from high oil prices.

Pros: -- This would place us in a non-demandeur position in the Energy Commission, thereby strengthing our ability to control the tempo and results of the overall dialogue.

-- Other participants would not be able to leverage us for concessions in other commissions.

-- We might be able to establish a "reverse leverage link", conditioning movement in the other commissions on relief on oil prices.

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A) A unilateral undertaking by producers not to use embargoes as a political weapon.

Pros: --Would give us an internationally recognized claim against producers if they later violated pledge.

--Would tend to eliminate a degree of uncertainty regarding future energy supplies, thereby facilitating planning in consumer countries.

Cons: --Some producers not likely to give pledge since they view threat of an embargo as major foreign policy tool.

--Pledge could not be enforced as consumers would have no economic defense against embargo.

--Producers would probably demand a high price for a unilateral renunication of embargoes.

--Could create false sense of confidence and thereby undermine energy initiatives in consuming countries.

B) Guaranteed markets for long-term supply commitments

Pros: --same as in option above
--would facilitate producers' economic planning by ensuring a predictable stream of future earnings.

Cons: --would reduce price pressures from market forces and LDC demands
--Consumers do not need supply agreement normally because, given OPEC's surplus production capacity, sufficient supplies will be available at the OPEC price.
--Producers cannot be trusted to live up to supply agreement if political consideration subsequently dictate a different course.
--A supply agreement could create a false sense of confidence and undermine consumer efforts to reduce their vulnerability.

Advanced and Alternative Energy Sources

One area in the energy dialogue in which consumers might have some leverage is in energy technology. Some producers accept that the long term utility of oil will diminish and that they have an interest in efforts of the industrial world to harness alternative energy sources for the production of electricity. Even though they believe they can purchase this technology when it is developed, they might be receptive to the argument that the process for developing and making available the new technology might be accelerated if they were more responsive to the industrialized nations' requirements regarding oil price and supply. In the Energy Commission, we should indicate our understanding of producers' interest in obtaining energy technology both to exploit oil resources and establish alternative energy sources for the long term, and ~~couple~~ connect consumers' ability to undertake technical assistance programs to the producers willingness to respond to consumers' needs. In introducing the International Energy Institute into the dialogue, we should stress how it could help producers plan and acquire advanced energy technologies as well as help satisfy the energy needs of non-oil LDCs.

Overall Strategy

We do not think we can get a meaningful agreement on price or supply at a cost we are prepared to pay. We cannot hope that the producers will voluntarily cede though a political process any of their bilateral ~~domination~~ domination of the oil pricing mechanism. We do not believe that the producers would agree to a substantial, e.g. $3.00 to $4.00, cut in price even in return for direct indexat[illegible] ...otiatable with OPEC would be so high in terms of both indexation and legitimization of high prices that its costs would outweight its benefits, particularly since the actual price increase resulting from some type of indexation or maintenance of value arrangement is not likely to be substantially lower than and could even be higher than the rate of increase likely to result in the absence of such an agreement.

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Even though we have things we could give in the Raw Materials and Development Commissions that many LDCs want, we doubt that a package could be negotiated that we could accept and which would also put sufficient pressure on producers to induce or force them to lower prices. We should reject pressures in the non-oil commissions to go further on specific issues (e.g. US participation in an international cocoa agreement) than we would otherwise do so in order to prevent oil producers from adopting a harder line on oil prices. We should concentrate instead in building cooperative links with the producers in order to accelerate the process by which they are integrated into the western economic system and to undertake joint efforts to assist non-oil LDCs.

Public relations considerations require that our tactics vary somewhat from our basic strategy of being a non-demandeur on energy. To ensure domestic support for the dialogue and to seek to undermine OPEC/LDC cohesion, we/ should be prepared to take the position -- in a non-confrontational manner -- that oil prices are too high, that they are economically unjustified, and that it is in the interest of all nations for oil prices to fall.

In the Energy Commission's analysis of the world's economic situation and energy role in it, we will want to demonstrate the validity of our arguments. Subsequently, we could indicate our willingess to seriously consider participating in a "maintenance of value arrangement" in return for a meaningful reduction in real oil prices. In the unlikely event the producers agree we would have to give such an arrangement serious consideration. But if, as is more likely, they refuse this offer, we could link our inability or unwillingness to go further in other commissions on issues of interest to LDCs to the producers' uncooperative and intransigent behavior on oil prices. We could also demonstrate to our public that we made a serious effort to get oil prices reduced.

Since we do not expect to achieve agreement on crucial energy issues, the major focus of the dialogue will probably turn out to be on cooperation among oil producing, consuming, and developing countries on measures to stimulate economic development. The dialogue provides the opportunity to turn the development issue to our advantage in two ways:

-- We can take advantage of some of the good will generated by the Kissinger speech to the Seventh Special Session of the United Nations General Assembly and follow up on a number of proposals in the dialogue.

-- We can use the dialogue as a mechanism for tying our contributions to the economic growth of developing countries to financial contributions by OPEC countries to the international financial institutions (IFIs) and other multilateral development institutions.

In contrast to energy, we are demandeurs on key financial questions. Increased OPEC financial contributions to the IFIs and other international development-oriented institutions are important to international financial stability and to our own economic growth. In the absence of enlarged OPEC participation, we and other consumers will be forced to increase our own contributions. Consequently, we should/be prepared to show some flexibility on specific issues in the Raw Materials and Development Commissions in return for producers' contributions to:

--the International Fund for Agricultural Development

--IDA replenishment

--regional development banks

--our proposed IFC investment trust or some similar trust

--IFC expansion

--schemes to enhance LDC assess to international capital markets

--financial support of the International Energy Institute

--financial support for consultative groups for research on agriculture

--financial support for LDC food grain reserves

--financing commodity buffer stocks, e.g. tin; and

--financing of food grain or fertilizer imports of LDCs.

In taking a more forward position in the Raw Material and Development Commissions because of a positive response from producers on these financial questions, we should, however, take care to avoid commitments that will deprive our negotiators outside the dialogue (e.g. for an international cocoa agreement) of essential bargaining leverage. This is particularly true since the commissions will not work out detailed negotiations and implementations of specific agreements.

Balance Sheet for the Second Ministerial

Thus, following this overall strategy--not trying too hard to reach agreements on energy problems and concentrating on cooperation efforts to promote international economic growth and ~~stabilizing~~ stability--we could make a creditable presentation at the Second Ministerial. We could note the progress made in expanding cooperative links between developed and developing countries; single out those areas, primarily in the work of the Raw Materials and Development Commissions, where the dialogue has provided impetus for actions beneficial to LDCs; and hint that the intransigence of the producers on oil prices prevented further progress from being made in assisting LDCs. In addition to demonstrating our commitment to implementation of the Secretary's UN initiatives, this strategy should help erode the OPEC/LDC cohesion and thereby increase pressure on the oil producers to be more responsive to consumer interests when deciding on pricing and production policies.

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Industrialized Country Coordination:

The broadening of the dialogue beyond energy complicates the task of coordination with the Europeans and Japanese. On energy, close coordination on procedure and substance remains essential to our overall strategy. The other industrialized countries, most of whom are considerably more dependent on imported oil than the US, are extremely sensitive to any hint that the US is prepared to sacrifice the objectives of consumer solidarity and reduced vulnerability for some uniquely privileged relationship with the oil producers which would leave them, the Europeans and Japanese, alone and exposed. The other consumers recognize and accept that the US will not give up all unilateral flexibility. But they regard close coordination of positions vis a vis OPEC as the essential quid for their continued cooperation with us on a strong consumer program in the IEA. Thus, while we want to ~~pressure~~ preserve bilateral flexibility with major producers, we should maintain close coordination with other IEA countries on energy in the dialogue. At the same time, we will have to keep the other industrialized countries firmly in line on our price strategy. Some of them may be disposed to give more serious consideration to the consultation or even the indexation options than we.

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There is less need for close coordination of positions in the raw materials and development areas since we have less to lose if other industrialized countries want to go farther than the US in these areas. However, overall coordination on tempo and tactics will be important.

The Energy Commission

Even though we do not expect to reach agrrement on oil prices and supplies, these subjects will tend to dominate discussions in the Energy Commission. We should make clear our views on oil prices but do so in a low-key manner and call for extensive analytical studies to test the validity of our conclusions, i.e.. high prices stimulate alternative source development and reduce OPEC's long-term earning potential; high prices undercut LDC development prospects; etc.

To avoid early confrontation, which could threaten the entire dialogue, and to be able to present a positive report to the Second Ministerial, we need early to mark out areas where cooperative action is possible. We should champion joint efforts by the industrial nations and the oil producers to provide relief for non-oil LDC's energy burdens. This type of cooperation would be difficult for the producers to reject, and by seizing the initiative, we might encourage the LDCs to follow a more independent line in the dialogue. (This strategy could largely be neutralized if OPEC unilaterally establishes a two-tier pricing plan or deferred payment scheme in favor of LDCs, but there is nothing we can do to counter such a move.) Throughout the process we should demonstrate a constructive attitude, indicate willingness to discuss any issue of interest to OPEC and LDC nations, and urge others to also be forthcoming.

We should seek to get all energy-related financial issues discussed first in the Energy Commission and then referred to the Financial Commission for further analytical study. Even if the Finance Commission should get an independent agenda, we should not permit oil prices to be treated into the Energy Commission outside the context of their financial impact on the world economy.

Work Program

The first task of the Energy Commission should be to undertake a comprehensive analysis of the global economy in the light of the energy situation. While this work would not likely lead to agreed conclusions, it would provide a point of departure for more extensive examination of specific energy issues by separate working groups. These groups should treat the following topics:

-- Oil prices, supplies and markets. A working group should be established to attempt to develop analytical bases for subsequent discussions of these key controversial issues by the commission itself. It would have three major tasks. First, the group would seek to reconcile the wide variation in producers and consumers energy projections and to develop an agreed range for future supply and demand under various price assumptions. Building on this work, the group would try to agree on how policy decisions by producers and/or consumers would alter the projections. (It could draw on the assessments already done in the OECD, IEA, and OPEC). Second, the group would try to reconcile assumptions and quantify the current and historical impact (direct and indirect) of oil prices on the international economy. Third, it would examine the price trend of oil vis-a-vis other commodities over the past quarter century, determine what oil price levels would currently be if oil prices had been indexed earlier to different baskets of commodities and assess the technical feasibility for establishing an indexing mechanism for oil prices.

Once these analyses are completed, the commission itself would review the desirability and negotiability of long-term arrangements on price, supply and/or markets. Having from the outset argued that lower oil prices are in the interest of all nations, we should at this point indicate our willingness to consider seriously participating in a maintenance of value arrangement in return for a meaningful reduction in oil prices. We should reject any proposal to index oil prices at or close to current levels. (In the IEA, we must prevent other consumer countries from sliding toward acceptance of a commodity agreement on oil in which the producers pledge to protect the ceiling and the consumers the floor.)

-- mobilization of the technology of the industrialized world and the capital of the producers to reduce LDCs' energy burdens. This group should encourage bilateral and multilateral energy-related programs for technical assistance and training to LDCs. We should push as a major initiative in this working group our proposal for creating an autonomous, multilaterally financed International Energy Institute. The institute would be financed largely by OPEC and employ experts from developed and developing countries. Its focus would be on ~~negotiating~~ mitigating the constraints imposed by energy requirements on LDC development efforts. It would coordinate multilateral efforts by the industrial nations to transfer expertise in conservation and the greater utilization of existing energy reserves as well as new energy technology to non-industrial nations and to provide traning for LDC energy officials.

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Expected Results of the Energy Commisssion

The report of the Energy Commission to the second Conference of Ministers will probably 1) indicate that while differences still exist on the key issues of price and supply, there is now greater appreciation on both sides of the role of energy in the global economy and the mutual benefit that can be served by a stable international economic system, 2) identify progress in accelerating the transfer of energy technology to the developing world, including the creation of the International Energy Institute, and 3) support resolution of the other commissions that deal with cooperation in energy-related

Depending on developments within the Commissions, working groups might also be established to discuss 1) management of short-term balance of payments surpluses and deficits, 2) the management over time of OPEC's financial surpluses, 3) direct investment by producers in industrial countries, and vice versa, and 4) use of western technology and expertise to help modernize producers' economies. These groups, if established, would coordinate closely with work in other commissions, the first three with that in the Finance Commission and the last with that in the Development Commission. Alternatively, the other commissions might be charged directly with this work and asked to make their findings available to the Energy Commission.

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financial and development areas. In the unlikely event that we negotiate a price reduction in return for some type of maintenance of value arrangement, this should be described as a joint contribution to international economic growth, stability and cooperation.

The Raw Materials Commission

We do not think actual negotiations on commodity matters should take place in the Raw Materials Commission. Our initial intention is that the Commission should not become involved in negotiating either the outlines or the details of specific commodity arrangements or replacing other work in existing international commodity organizations. Instead it could formulate general principles and make specific recommendations on particular commodities.

We should be prepared to pursue the raw materials part of the dialogue independently from that going on in other commissions. This would mean taking positions on specific issues on their own merits. We would want to be more forthcoming, however, if we can link OPEC financial contributions to movement in this commission. On the other hand, we could, should it become desirable or necessary, justify our lack of flexibility on OPEC's rigid position in the Energy Commission.

Objectives

In his September 1 speech to the UNGA Seventh Special Session, the Secretary mentioned several points which can serve as a partial set of objectives for the US in the Raw Materials Commission:

-- establishment of a Development Security Facility which would provide expanded compensatory financing for shortfalls in commodity earnings; (presumably we will want the Financial Commission to handle the details of this, but the US representatives in the Commission will have to note in their presentation that the DSF represents the major new US initiative affecting commodities and the fact that the DSF proposal makes specific provision for the commodity basket concept);

-- US interest in buffer stocks as a means of stabilizing commodity prices;

-- establishment of producer/consumer forums for every key commodity;

-- diversification of production and export of commodities by developing countries;

-- better and more stable conditions of trade, including reduction of duties on processed raw materials and possible agreement on principles of access to markets;

-- expansion of production capacity in commodities.

-- improving the productivity and marketability of agricultural raw materials.

In addition, other countries, in particular the developing country members of the Commission, will probably wish to raise their standard commodity demands: blanket approval of UNCTAD Integrated Program for Commodities, which provides for buffer stocks and a common fund to finance them, government commitments on long-term purchases, and preferential tariff and non-tariff treatment for commodities of interest to developing countries. Developing countries will probably also wish to discuss and receive endorsement of the concept of indexation, either direct or indirect, as a means of preserving the purchasing power of their commodity export earnings.

The US has been opposed to the concept of indexation and has also expressed great skepticism (although not yet outright opposition) to some elements of the Integrated Program, although we should be prepared to examine some parts of the IP seriously, i.e., the concept of buffer stocks, liberalization of IMF compensatory financing and buffer stock financing, preferential tariff and non-tariff treatment, and possibly long-term commitments as well.

We should welcome the opportunity to get our views on the record in this forum and to have an extended discussion of the technical aspects of these proposals, since we believe it will show conclusively the infeasibility of many of these ideas. Thus, a further US aim in the Commission should be to:

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-- demonstrate the undesirability--and, in fact, infeasibility--of the concept of indexation and some of the elements of the Integrated Program, in particular the common fund proposal, as a means of solving the commodity problems of developing countries.

We may also have to address agricultural issues in the Commission, since the terms of reference for the Commission in the French aide memoire of September 15, which we have accepted, state that commodity matters to be discussed include "food products of special interest for the developing countries."

III. Work of the Commission

We should propose that the Commission organize itself so that it can deal with both general commodity policy questions as well as with the specific problems of individual commodities. We should insist strongly in this latter activity, since it forms the basic element in our commodity-by-commodity approach. Presumably the overall Commission itself can deal with general policy issues. It could, as one phase of its work, review the activities of existing international organizations such as UNCTAD's Committee on Commodities and the FAO's Committee on Commodity Problems.

At least one and possibly more subgroups may be necessary for individual commodity problems. The task here would be to develop criteria for the establishment of new producer/consumer groups and eventually to make recommendations for their establishment. (At this juncture, copper seems the most logical first candidate.)

IV. <u>Relationship to Work in Other Forums</u>

The general policy work of the Commission must take into account work already going on elsewhere, in particular, in the multilateral trade negotiations (when discussing preferences, non-reciprocal tariff and non-tariff concessions, reduction of elimination of graduated tariffs against processed commodities, etc.) and work in UNCTAD on the Integrated Program and indexation. In this latter connection, UNCTAD's Committee on Commodities will be meeting in December to decide on its final views on the Integrated Program, which will then be transmitted for action to the UNCTAD IV meeting taking place May 3-28, 1976. We must, therefore, expect that much of the work of the Commodities Commission will in fact duplicate ongoing work in these forums and, to a lesser extent, in individual commodity organizations.

V. Final Result

We would envisage as the end product of the Commodities Commission a package containing two parts. First, there would be an agreed declaration on general principles somewhat similar (although possibly more "forward-looking") than the resolution passed by the UNGA Special Session on September 14 without dissenting vote. Secondly, the final report of the Commission would contain recommendations for action on specific commodities with the explicit statement that these would be carried out in other forums.

How far advanced US positions can or should be on these items is something which can be determined only during the course of the producer/consumer dialogue itself.

Development Commission

The work of the commission will encompass the board range of North/South relations pertaining to the development process. The work of the commission should be sharply focused on specific proposals and institutional arrangements, furthering the pragmatic, constructive approach to these problems established by the Secretary's speech. We should get the Commission to deal first with his proposals and with the LDC's balance of payments problems. From the outset, we should tactfully encourage the LDC s to demand increased financial assistance from the OPEC nations.

The commission is not the place where operational decisions on most of the issues discussed below will be reached. Nevertheless, the commission might be useful in forging the political will to address these issues in a constructive fashion.

Objectives

We will attempt to use the Development Commission to:

A. Dramatize the LDC's unsustainable balance of payments deficit and its counterpart in oil prices and OPEC financial surpluses -- thereby putting OPEC on the defensive both in its pricing policy and relations with LDC's in the Commission.

B. Highlight the weaknesses in OPEC aid policies and practices, increasing pressure on the oil producers to make more responsible, constructive use of their aid funds.

C. Resist strongly proposals, particularly debt moratoria, which amount to having the OECD countries bear the entire burden for relief of LDCs balance of payments plight.

D. Translate the general acceptance of the Secretary's UN speech into a new constructive working relationship with the LDC's, defusing the confrontation characteristic of our recent relations with the Group of 77.

E. Capitalize on the sense of US leadership and political impetus toward cooperative approaches and pragmatic solutions generated during the Seventh Special Session to rally support for specific proposals the Secretary has advanced.

F. Shift the political dynamics of the relationship with OPEC and the Group of 77 to lay the groundwork for constructive progress in other forums: the IBRD, IMF, the UNCTAD IV meetings to be held in Nairobi next May, etc.

Focus on Work Program

We will push to focus the work of the commission on the following subjects:

A. The dire balance of payments problem of developing countries (as a proxy for the impact of high oil prices on the development process). The work of the commission could usefully contribute to the US goals of highlighting the severe setback to development plans constituted by OPEC price policy, pressing OPEC to provide more aid and generally putting OPEC on the defensive in its LDC relations.

We probably cannot avoid discussion of the extent to which OECD trade account surpluses are currently contributing to the balance of payments difficulties of the developing world. We should therefore attempt to insure first that the role of OPEC pricing policies in this regard is well understood, then be prepared to fallback to a position based on the concept of sharing the burden of assistance to LDC's equitably between OPEC and OECD countries. Such a discussion would serve to highlight the numerous commitments OECD countries have made in this regard in contrast to OPEC's performance to date. Any specific proposals which might be developed in the commission to achieve balance of payments adjustment goals would be referred to the Financial Commission for consideration.

B. The need for improvement in OPEC aid policies. The commission should discuss the emerging pattern of OPEC aid, emphasizing the uneven geographic distribution and the need for the OPEC countries to coordinate their bilateral assistance efforts with other donors, relate their assistance more direcly with comprehensive development plans of recipient LDC's and participate fully in international donor consortia.

C. Importance of Food Production Policy in the Development Process

The discussions of the commission will provide a forum for reiteration of U.S. views on the importance of increasing domestic LDC food production, and an opportunity to develop support for both the International Fund for Agricultural Development (IFAD) proposal and the activities of the Consultative Group on Food Production and Investment (CGFPI).

D. Ensuring the Economic security of the developing world

The commission will be an appropriate place to reinforce our statements on the general usefulness of an export earnings stabilization approach to LDC economic security. Although this subject will be primarily the concern of the Financial Commission the relationship of earnings stability to the development process can be emphasized by a discussion in the Development Commission.

E. Potential for accelerating economic growth of LDC's

The Commission will serve as a useful vehicle for developing support for the initiatives articulated by the Secretary in his UN speech regarding acceleration of LDC growth through a comprehensive program focussing on access to capital markets, the transfer of technology and uniform standards for treatment for transnational enterprises.

F. OPEC development program needs

We should be prepared in the Development Commission to discuss the development program needs of the OPEC countries, perhaps in concert with the Energy Commission.

We should emphasize our willingness to participate as fully as possible in OPEC development efforts and outlining means of assuring that OPEC programs do not reduce the funds or real resources made available to the LDC's through international financial institutions, bilateral aid programs or borrowing on developed countries' capital markets.

Areas to be Avoided

We will seek to discourage the Commission from actively pursuing a number of areas which would not further the North/South dialogue and which might lead to a heigtened atmosphere of confrontation in the discussions. These areas include: (1) the aid/SDR link, (2) Indexation, (3) Aid targets (with the exception of the World Food Congress grains target), and (4) Debt moratoria. If discussion of these subjects is unavoidable we will participate fully in the give and take, seeking to keep the debate focused on the merits and weaknesses of specific mechanisms or proposals in order to prevent the atmosphere from deteriorating into generalized polemics.

Organization

We believe that the full group should break down into working groups assigned to specific topics. This would accomplish two major objectives:

-- The work of the commission would be focused on specific problems, thereby reducing the tendency to lapse into generalized rhetoric; and

-- Groups working in areas where progress is possible could move quickly ahead, with minimal danger of the whole Commission's bogging down in debate of one or a few unresolvable conflicts.

The working groups would be directed to produce reports on their topics for the Commission, thus again tending to focus the full group's attention on specific problems.

Should we be unsuccessful in shaping the work agenda to the areas of concentration which correspond to our interests we would then insist that the full commission consider each area in turn and that it meet less frequently.

Results of Commission's Work

The commission's final product will probably be a resolution calling on various specialized international institutions to proceed to develop agreed programs or take specific measures.

The Finance Commission

We have agreed to the establishment of the Fourth Commission on the condition that it deal with the financial and relevant monetary aspects of the work of the other commissions. Some of the other participants expect it to have a much broader mandate. Algeria wants to discuss international monetary reform in this commission, and Saudi Arabia sees it as a vehicle to ensure the maintenance of value of its financial assets. Once we agree to an independent work program for the Fourth Commission, we risk seeing it become the focal point of the entire dialogue and risk that it will rapidly get into monetary and other issues we have tried to keep outside the framework of the dialogue.

The United States should emphasize that the commission's work program be determined by questions referred to it by the other commissions. As a contingency fall-back position, we could agree that, in addition to responding to requests from the other commissions, it could independently engage in an exchange of views on the world balance of payments adjustment process and the investment of OPEC surpluses. This would be an exercise similar to that of the OECD Economic Policy Committee's Working Party Three. It should be narrowly focussed, and not expand into a general review of the world economic situation. This restricted scope would reduce the risk of impairing progress in other commissions, while providing a useful dimension to the dialogue.

We should use the discussions on balance of payments adjustment problems to:

-- give the OPEC nations greater recognition for their importance in influencing world trade and capital flows; and

-- focus OPEC concerns on the balance of payments adjustment problems of the less developed countries that are bearing the greatest part of the adjustment burden of high oil prices.

If these discussions go well, the Commission could recommend that in the future some key OPEC nations be invited on an ad hoc basis to meetings of central bank presidents in Basle, Switzerland. Such a proposal would coincide with our general desire to accelerate the integration of the producer economies into the western economic system and to get OPEC leaders to assume greater responsibility for international economic and financial stability.

Despite our efforts to prevent it, the other participants will raise the question of international monetary reform in the Commission. We will then have to respond to the substance of their remarks or simply refuse to discuss the issue on the basis that this issue is being handled in the International Monetary Fund. The latter alternative will, of course, spark a negative reaction by the other side. Furthermore, some of the industrial nations may not support us on this position.

US Objectives for Fourth Commission

The US should try to use this commission to:

-- Give LDCs and particularly OPEC nations a greater sense of participation in international financial affairs;

-- Build support for our financial initiatives to help the developing countries and, where possible, obtain maximum OPEC contributions:

-- Insure that LDCs and OPEC nations are fully aware of the consequences of OPEC behavior in (a) setting higher oil prices and (b) investing the resulting financial surpluses;

-- Encourage responsible and cooperative OPEC behavior in international financial markets and obtain a better idea of their likely future investments.

Formal Commission Objectives

Assuming the Commission is organized along our fall-back position, its objectives would probably be:

-- Provision of background and analysis on relevant aspects of the financial situation for the work of the other three commissions.

-- Exchange of views on balance of payments positions and policies, focusing on the payments balances of the OPEC, non-oil LDC, and OECD areas.

-- Development of information on OPEC investment policies, OPEC capital flows and regulations and attitudes of recipient countries which affect them.

Specific Topics that Could be Referred to the Fourth Commission (although the US might have a negative position from the beginning on some)

A. Balance of Payments Adjustment Process

-- Size and distribution of present and prospective current account positions between OECD, OPEC and non-oil developing areas.

-- Adjustment policies in the three areas, including outlook for OPEC absorptive capacity.

-- Pattern of financing for current account positions among the three areas.

B. OPEC Investments

-- Magnitude, composition and direction of present and prospective OPEC investment flows.

-- Investment policies of recipient nations.

-- Capital market developments as they relate to OPEC placements.

-- New mechanisms, such as investment trusts, to channel OPEC investments.

C. Financing Development in the LDCs and OPEC

-- Financing of "triangular" investment projects in the LDCs;

-- Financing of LDC food imports and activities of IFAD;

-- Concessional OPEC financing of LDC oil imports;

-- Mounting of large investment projects in LDC and OPEC countries.

D. Energy and Commodity Matters

-- Financial implications of commodity arrangements;

-- Export earnings stabilization;

-- Denomination of oil prices in new units of account and the currency of payments for oil imports;

-- Financial consequences of changes in energy prices.

Topics we prefer not be Raised to the Fourth Commission

-- General economic reviews which could serve as a framework for linking the issues addressed in the three other commissions;

-- International monetary reform questions;

-- Multilateral trade negotiations questions;

-- Operations of IMF, IBRD and other international financial institutions;

-- Ways of dealing with LDC debt problems;

-- IMF and IBRD buffer stock financing;

-- Regulation of international banking operations.

We will need positions on these issues nevertheless, unless we are prepared to stonewall on them.

Organization of the Commission

The membership of the Commission should reflect its supporting role with respect to the other three commissions. Four members can be chosen from each of the other commissions (countries, not individuals, so that financial experts can be assigned as delegates as necessary) or, if we are pressed, a 5/10 split can be agreed to. Observers from various international organizations would be invited to attend when subjects relevant to their expertise are discussed.

Results of Fourth Commission

We would not envisage any formal agreements emanating from the Fourth Commission, except perhaps the recommendation for OPEC bankers to participate in some meetings of western central bankers in Basle.